

Commonwealth of Kentucky Judgments and Contingencies

Judgments

Judgments include amounts to be paid as a result of court decisions and condemnation awards for private property. These include those arising out of: (a) employment; (b) contractual actions, such as claims for delays or inadequate specifications; (c) actions of governmental personnel, such as claims for medical malpractice, damage to private property by government-owned vehicles, and improper police arrest; and (d) governmental properties, such as claims relating to personal injuries and property damage. The court-ordered amounts that remain unpaid at June 30 should be included if payment is to be made with "new year" funds. Judgments should be segregated into those amounts which are (a) payable within one year, (b) payable in future periods, and (c) a combination of the two, which have to be broken down between periods.

Contingent Liabilities

A contingent liability differs from a judgment in that a contingent liability arises when a suit that has been filed, but a court decision has NOT been made. Contingent liabilities include amounts for claims against the Commonwealth that relate to situations that occurred prior to June 30. Contingencies are broken into the following categories: (a) "remote," less than 50% chance of occurrence; or (b) "possible," 50%-74% chance of occurrence; or (c) "probable," 75% or greater chance of occurrence. Only **probable** liabilities (75% or greater chance of occurrence) for which the loss is **reasonably estimable** should be included as contingent liabilities and reported on form AFR 70A.

Contingent liabilities should be broken down into those amounts which are (a) payable within one year, (b) payable in future periods, and (c) a combination of the two, which should be broken down between the two periods. Any payments made for either judgments or contingencies should be shown on form AFR 70B.

Before completing form AFR 70A or AFR 70B, obtain a copy of your agency's attorney letter regarding judgments and contingencies. Please make sure that the attorney letter agrees with all information provided on form AFR 70A and AFR 70B. The attorney letter must **explicitly state** that all contingency amounts shown on form AFR 70A are **PROBABLE** and must give the expected **loss amount** in dollars. If discrepancies exist, either revise the AFRs or obtain a new attorney letter containing information that substantiates the numbers presented on the AFRs.

Detailed Instructions
AFR 70A
Judgments and Contingent Liabilities

1. Enter the date the form is completed.
2. Enter the official agency name.
3. Enter the cabinet and agency number.
4. Enter the fund name.
5. Enter the four-digit fund number.
6. Enter amount payable within one year for each classification (to be paid with FY 2007 funds).
7. Enter amount payable in future periods for each classification (to be paid with FY 2008 or later year funds).
8. Enter total amount for each category.

BREAKDOWN:

9. Enter the balance of contingent liabilities/judgments at June 30, 2005, per last year's AFR 70A, as the beginning balance for FY 2006.

If there are revised estimates for amounts carried forward from last year, do not change them here. Changes in prior estimates are reported as either an amount dismissed (decrease in estimate) or an amount incurred during the year (increase in estimate). Do not adjust beginning balances. These must exactly match prior year ending balances.

10. Enter all amounts paid during the year. This includes payments for contingent liabilities/judgments recorded at June 30, 2005 (part of beginning balance) and for contingent liabilities/judgments incurred during the year (FY 2006). The total paid amounts should match the total of all paid amounts shown on AFR 70B.
11. Enter the amounts of contingent liabilities/judgments that were recorded at June 30, 2005, but were dismissed during fiscal year 2006. Also, include any decreases in estimated amounts that were previously reported.
12. Enter the amount of contingent liabilities/judgments that were incurred during the fiscal year. Also, include any increases in estimates previously reported.
13. Enter any amount to be reclassified from the category in which it was reported at June 30, 2005. For example, it would be appropriate to reclassify an amount reported in the previous year as a current contingency to a judgment this year if the case was decided in the current

fiscal year. A decrease in current contingencies and an increase in current judgments would be shown on AFR 70A.

NOTE: Amounts on this line will not increase/decrease the total liability report. Amounts will be shown as a reduction in one column and an increase in another column.

14. Enter the balance of contingent liabilities/judgments at June 30, 2006. This should agree with item 8 above.
15. Enter the name of the person preparing the form.
16. Enter the phone number of the person preparing the form.
17. Check again to make sure that all amounts listed on form AFR 70A and form AFR 70B are fully described in your agency's attorney letter (stating the case is "probable" and giving expected loss amount for all contingent liabilities).

Detailed Instructions

AFR 70B

Detail of Contingent Liabilities and Judgments Paid

1. Enter the date the form is completed.
2. Enter the official agency name.
3. Enter the cabinet and agency number.
4. Enter the fund name.
5. Enter the four-digit fund number.
6. Enter the fund, agency, and object to which each payment was charged.
7. Enter the document number that entered the payment into the MARS system.
8. Enter name of case that was paid.
9. Enter the amount paid/charged to each object.
10. Enter the total for each category.
11. Total all paid amounts and make sure this total matches the total of all paid amounts shown on the AFR 70A.
12. Enter the name of the person who prepared this form.
13. Enter the phone number of the person who prepared this form.
14. Check again to make sure that all amounts listed on form AFR 70A and form AFR 70B are fully described in your agency's attorney letter.